Seattle City Light

Memorandum

DATE: May 23, 2013

TO: Mayor Michael McGinn
Seattle City Council

FROM: Jorge Carrasco

SUBJECT: Financial Update – April 2013

This memo provides an analysis of Seattle City Light's financial condition and operating results through April 30, 2013. The attached Income Statement Analysis, which is summarized in the chart below, provides a summary of how City Light performed year-to-date in 2013 compared to the same period of the previous year and the year-to-date 2013 Financial Plan. In addition, we have provided a forecast of City Light's financial results through December 2013 compared to the 2013 Financial Plan. The 2013 Financial Plan is based on the revenues and expense projections included in the adopted budget for 2013.

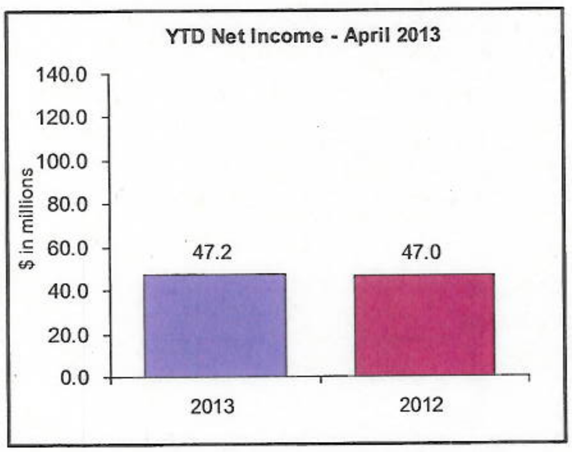
FINANCIAL HIGHLIGHTS
April 2013
($ millions)

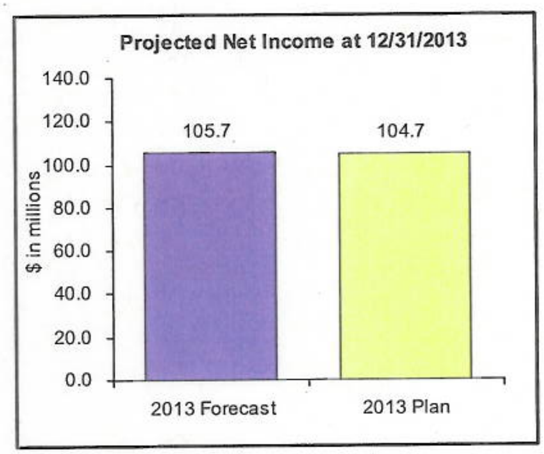
	Year-to-date Plan	Year-to-date Actual		Year End Dec. 31		Forecast change from prior month
	2013	2013	2012	Plan	Forecast	
Retail Power Revenues[1]	$ 252.1	$ 253.7	$ 242.0	$ 707.2	$ 712.0	$ (0.3)
Net Wholesale Energy Sales[2]	$ 37.5	$ 29.5	$ 22.7	$ 90.0	$ 48.9	$ 6.4
Net Power O&M	$ (99.9)	$ (100.0)	$ (99.6)	$ (257.2)	$ (258.2)	$ 0.3
Net Non-Power O&M	$ (69.2)	$ (60.3)	$ (57.0)	$ (224.4)	$ (214.9)	$ 0.6
RSA Transfers, Net[3]	$ (0.4)	$ 7.5	$ 17.8	$ (1.4)	$ 40.9	$ (6.0)
Taxes, Depreciation & Other	$ (72.9)	$ (83.2)	$ (78.9)	$ (209.6)	$ (223.0)	$ (8.3)
Net Income	**$ 47.2**	**$ 47.2**	**$ 47.0**	**$ 104.7**	**$ 105.7**	**$ (7.3)**
Operating Cash	$ 105.1	$ 185.3	$ 158.7	$ 135.6	$ 202.2	$ 12.8
Construction Account - Restricted	$ -	$ 18.7	$ -	$ 42.8	$ -	$ -
Rate Stabilization Account	$ 91.9	$ 120.8	$ 130.4	$ 93.0	$ 87.4	$ 6.0
Bond Reserve[4]	$ 32.5	$ 34.3	$ 1.5	$ 57.0	$ 56.4	$ 0.0
Other Restricted Assets	$ 25.1	$ 6.1	$ 9.1	$ 16.7	$ 16.1	$ -
Total Cash	**$ 254.5**	**$ 365.2**	**$ 299.7**	**$ 345.1**	**$ 362.1**	**$ 18.8**
Debt Coverage Ratio	n/a	n/a	n/a	1.8	1.9	0.0
Debt to Capitalization Ratio	60.9%	61.0%	62.0%	62.4%	62.0%	0.1%

(1) Retail power revenues include revenues such as Green Power Program and power factor charges.
(2) Revenue from wholesale sales, before booked out long term purchases.
(3) Transfers from the RSA less transfers to the RSA.
(4) Funds from the Surety Bond Replacement Fund were moved to the Bond Reserve Account on June 1, 2012.

Net Income

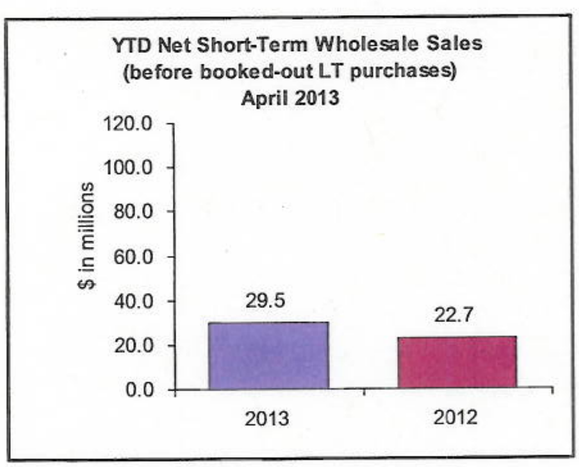
As indicated in the table on the previous page and in the charts below, net income for the period ending April 30, 2013 was $47.2 million, which is a $0.2 million or a 0.4% increase over the same time period in 2012. Retail power revenues are higher due to the 4.4% system average rate increase. Offsetting these are higher customer service, and depreciation and amortization expenditures.

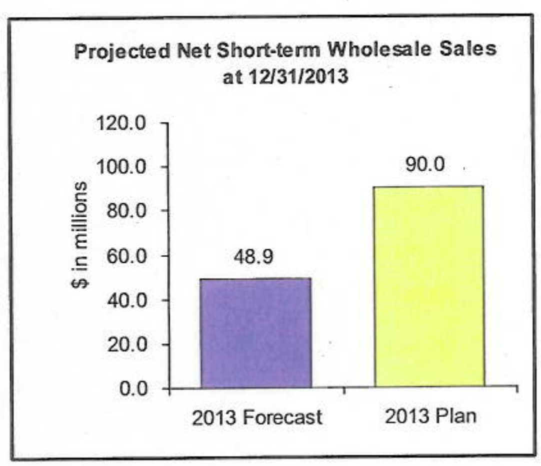




Projected net income at year-end December 31, 2013 is expected to be $105.7 million, which is $1.0 million or 1.0% higher than the 2013 Plan. This difference is explained by higher than planned retail revenues due to a colder than normal January and April, lower than planned generation expenditures because of lower FERC land use fees, and lower long-term purchased power expenses due to updated actuals and lower market prices. Offsetting these is lower investment income from lower than planned interest rates.

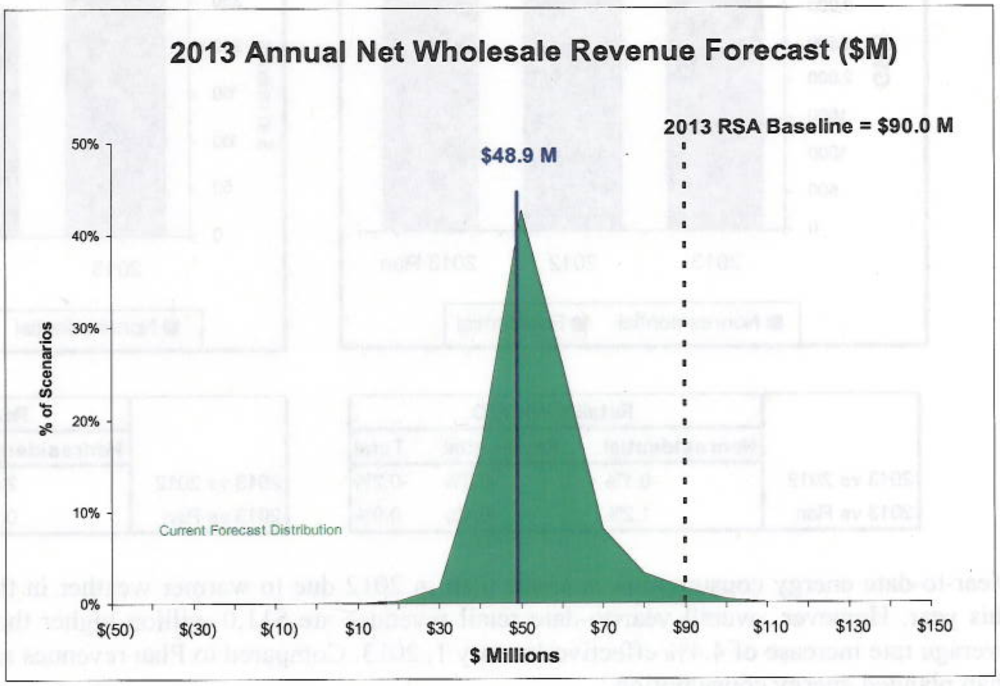
Net Short-Term Wholesale Energy



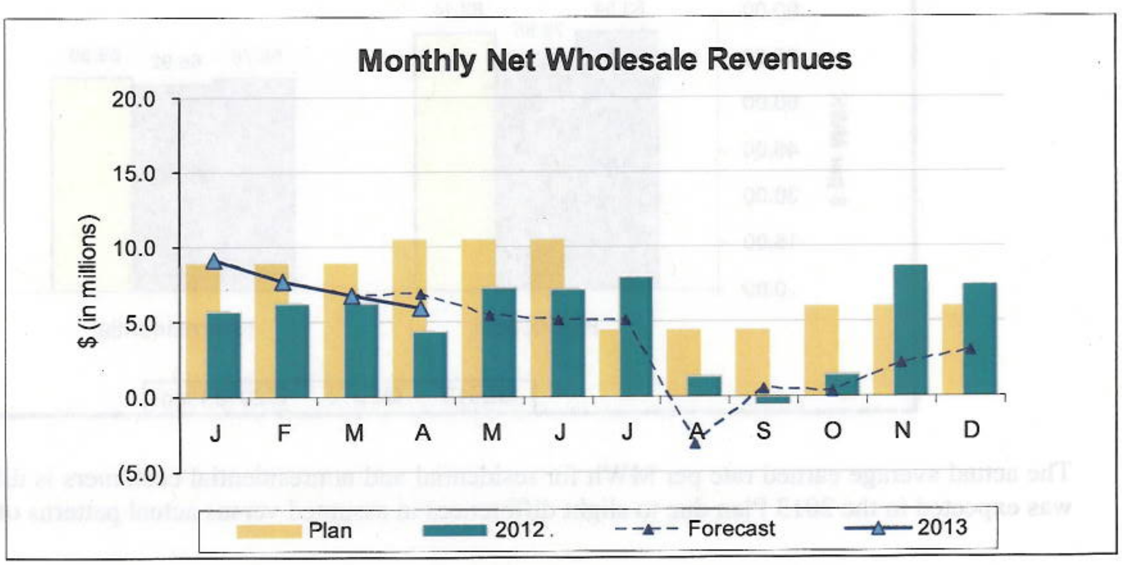


The projections of net short-term wholesale energy sales change weekly due to changes in water conditions, economic factors such as the price of natural gas, system load and the availability of surplus energy for resale. The chart below represents the current forecast for net short-term wholesale revenues before booked-out long-term purchases, which is $48.9 million.

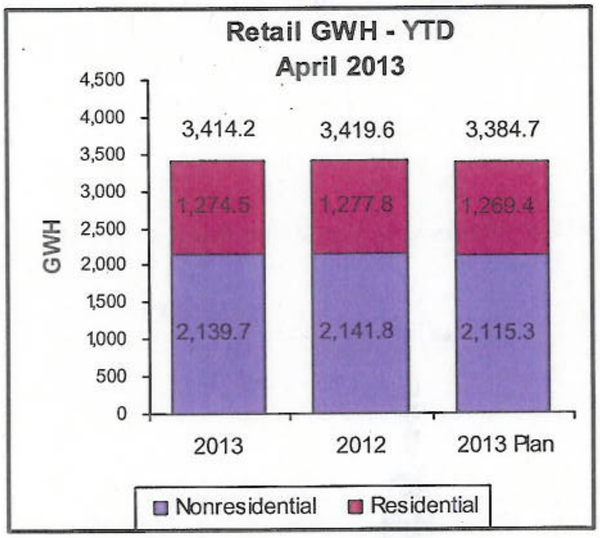
In contrast, the 2013 planned net wholesale revenue is set as specified in the Strategic Plan 2013-2018, which was adopted by City Council in July 2012. Therefore, it does not reflect current market conditions.

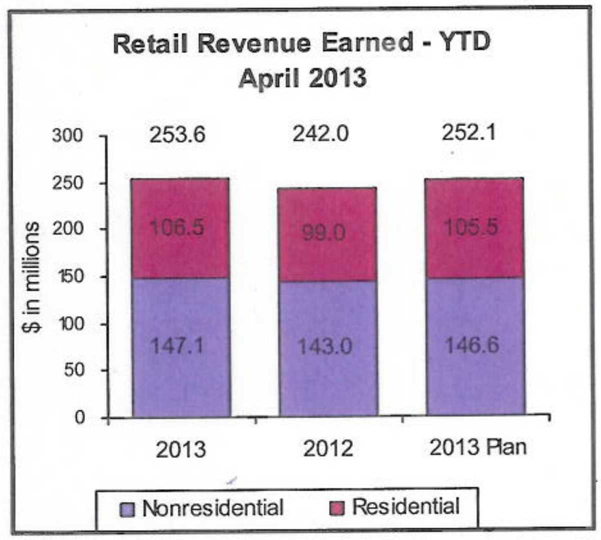


Net wholesale revenues in April 2013 were $5.9 million, $1.5 million higher than in April 2012. This increase is driven by higher energy prices this April. Offsetting this is a much smaller surplus in April 2013 as compared to April 2012.



Retail Power Revenues
The charts that follow present selected data on year-to-date retail power revenues.

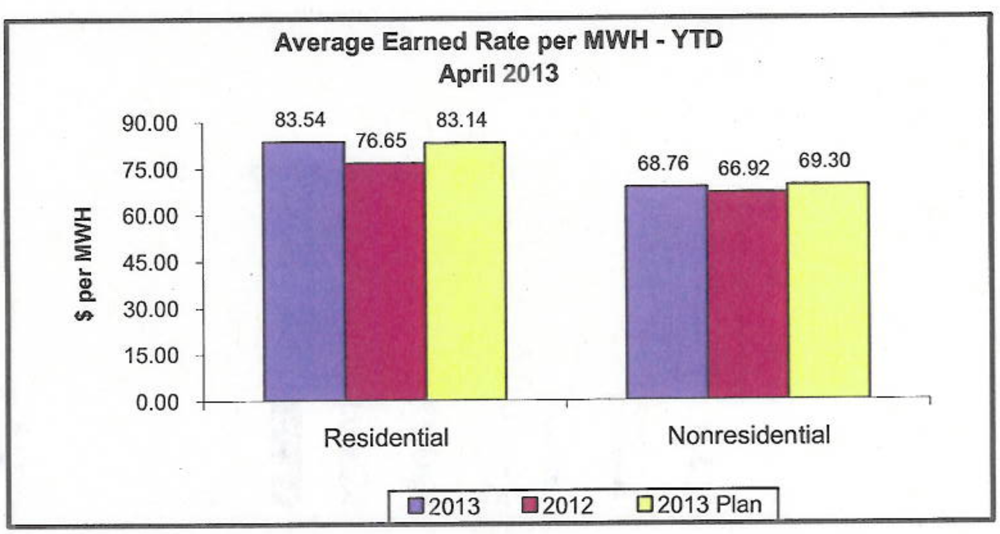




	Retail MWh YTD		
	Nonresidential	Residential	Total
2013 vs 2012	-0.1%	-0.3%	-0.2%
2013 vs Plan	1.2%	0.4%	0.9%

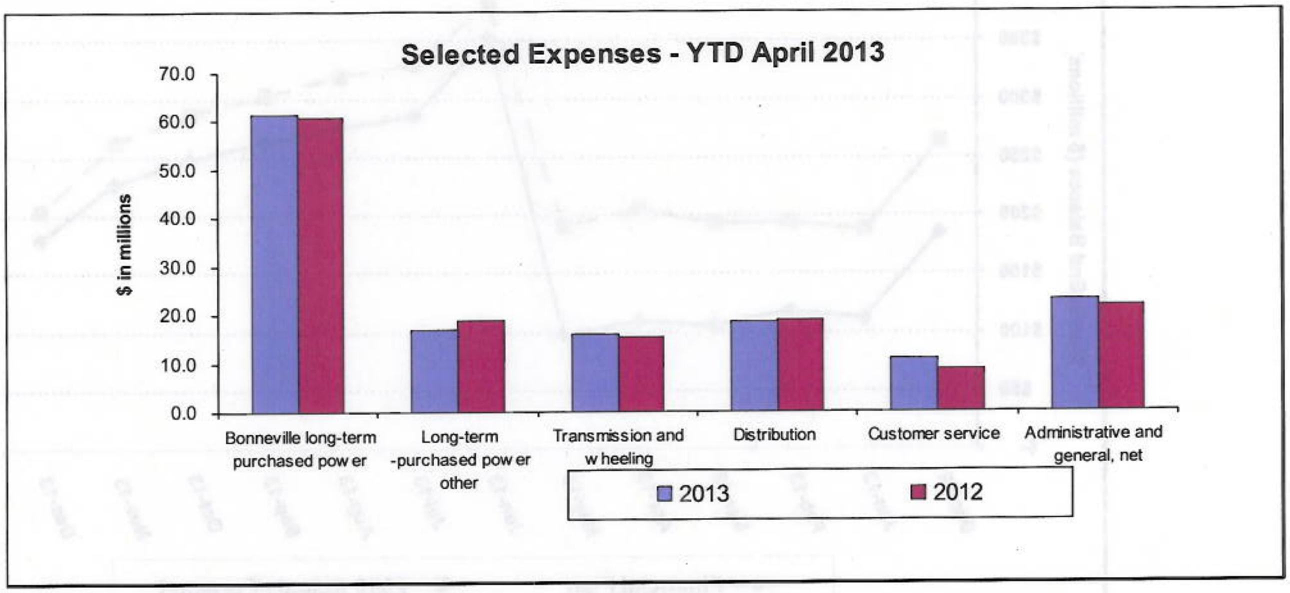
	Retail Revenue YTD		
	Nonresidential	Residential	Total
2013 vs 2012	2.9%	7.5%	4.8%
2013 vs Plan	0.4%	0.9%	0.6%

Year-to-date energy consumption is lower than in 2012 due to warmer weather in the first four months of this year. However, overall year-to-date retail revenues are $11.0 million higher than 2012 because of an average rate increase of 4.4% effective January 1, 2013. Compared to Plan revenues are higher due to higher than planned energy consumption.



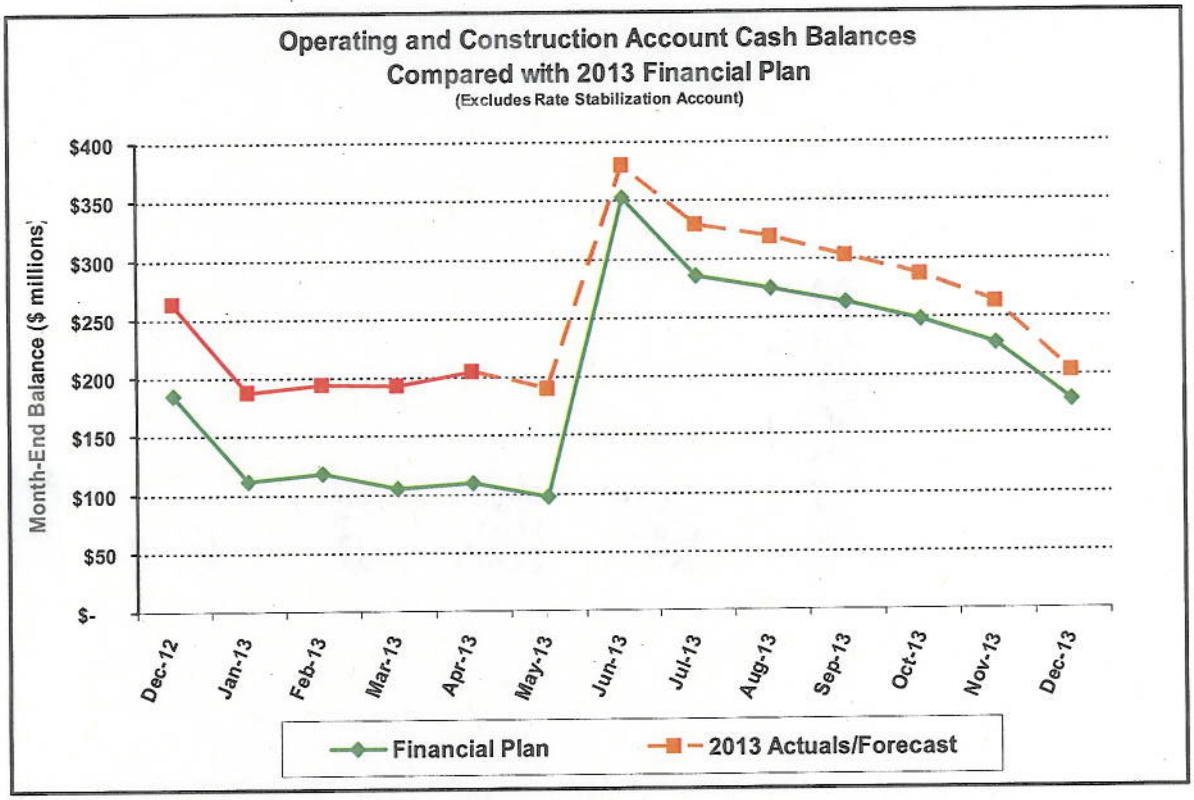
The actual average earned rate per MWh for residential and nonresidential customers is different from what was expected in the 2013 Plan due to slight differences in assumed versus actual patterns of consumption.

Expense Data for Selected Accounts
The following chart presents year-to-date data for major components of City Light's operating expenses excluding wholesale power transactions.



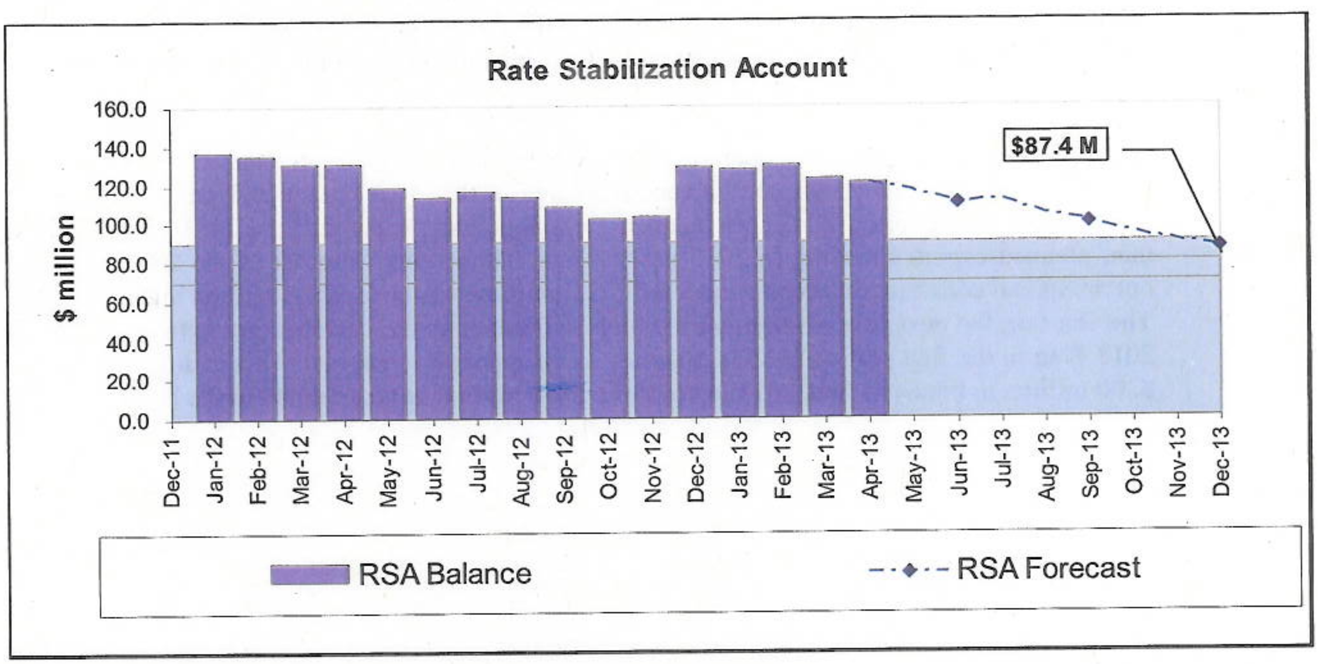
Bonneville expenses year-to-date are slightly higher than last year due to higher BPA Block purchases. Offsetting this is a slightly higher BPA Slice true-up credit this year. Year-to-date long-term purchased power expenses are lower primarily due to higher booked-out purchases and lower expenses from the Lucky Peak project. Year-to-date transmission expenses and distribution expenses are similar to the same period last year. The customer service expenses year-to-date are higher than last year primarily due to higher billing and collection expenses, higher system operating expenses and higher bad debt expense. In 2012 bad debt expense had a high negative balance resulting from actual write-offs processed and estimated in 2012 ensuing from the clean-up efforts of past due accounts. Administrative and general expenses are higher this year primarily due to higher salaries caused by COLAs and higher employee pension and benefits expenses.

Cash Position
At April 30, 2013, City Light's operating plus construction account cash balance was $204.0 million, which was $95.3 million higher than the balance projected in the 2013 Financial Plan. This difference is due to much higher than planned 2012 cash balances, which are not reflected in the 2013 Financial Plan, and lower than planned capital spending in 2013 year-to-date. The revised forecast of the 2013 year-end balance of operating and construction account cash is $202.2 million, which is $23.8 million higher than the 2013 Plan. The chart on the next page shows that the large difference in the cash balance between the forecast and the 2013 Plan in the first part of 2013 is expected to disappear by year-end. This is due to the decision to issue $200 million in bonds in June 2013 instead of a $265 million issue assumed in the Plan.



RSA Position

The cash balance in the RSA was $120.8 million as of April 30, 2013. The year-end RSA balance is projected to be $87.4 million, which is expected to trigger a surcharge of 1.5% in February of 2014. No surcharge is expected in 2013.



2013 Budget

As of April 2013, City Light is projecting that overall it will be within its budget authority through year-end 2013. The Department has spent 38% of the overall O&M budget (O&M budget includes Non-Power O&M expenses, Purchased Power, Taxes and Debt Service) through April. At this point in the year we would normally expect to have spent 33% of the annual budget, but carry forward encumbrances overstate the spending in the 1st Quarter. City Light's spending on the Capital program through April is 84% of the 2013 work forecast for the year to date. City Light anticipates that the accomplishment rate will be 90% by year-end.

Debt-to-Capitalization

On April 30, 2013, City Light's debt-to-capitalization ratio was 61.0%, a decrease from 62.0% this time last year and a decrease from 62.8% reported at December 31, 2012. Based on the revised forecast, the 2013 year-end debt-to-capitalization ratio is now expected to be 62.0%, slightly lower than the 2013 Plan because of the lower expected bond issue in June and 2012 actuals that were not included in the Plan.

Compliance with Risk Policies and Standards

Attached for your information is the City Light Risk Oversight Status Report as of May 8, 2013, which conveys City Light's compliance with risk policies and standards at that point in time.

Performance Metrics

In addition to the financial information included above, we have provided a report on performance metrics for Distribution Operations, Vegetation Management, Safety and Human Resources, Power Resources and Customer Care. The updated Performance Metrics Report for April 2013, with 2012 data included for comparison, is attached.

Attachments

Line No.	Condensed Statements of Revenues and Expenses	Year-to-date			Year Ending December 31, 2013		
1	**Unaudited**	[A]	[B]	[A - B]	[C]	[D]	[C - D]
2	In millions			Actuals to	2013	2013	
3		Actuals	Actuals	Actuals	Revised	Financial	
4		April 30, 2013	April 30, 2012	Variance	Forecast	Plan	Variance
5	**Operating Revenues**						
6	Retail power revenues	$ 253.7	$ 242.0	$ 11.7	$ 712.0	$ 707.2	4.8
7	Short-term wholesale power revenues, net (lines 41 + 44)	29.8	22.2	7.6	69.0	109.3	(40.3)
8	Power-related revenues - other	8.3	4.7	3.6	37.1	35.5	1.7
9	Transfers from/(to) rate stabilization account	7.5	17.8	(10.3)	40.9	(1.4)	42.3
10	Other revenues	7.9	7.4	0.5	23.6	22.8	0.8
11	Total operating revenues	307.2	294.1	13.1	882.6	873.4	9.2
12	**Operating Expenses**						
13	Generation	10.3	9.3	1.0	36.3	39.0	(2.7)
14	Bonneville long-term purchased power	61.5	60.9	0.6	155.4	153.3	2.1
15	Long-term purchased power - other	16.8	18.8	(2.0)	60.6	65.8	(5.2)
16	Short-term wholesale power purchases	3.7	1.5	2.2	26.3	24.5	1.8
17	Power-related wholesale purchases - other	6.9	4.2	2.7	11.4	9.6	1.9
18	Other power costs	3.8	3.2	0.6	11.4	10.6	0.8
19	Transmission and wheeling	15.9	15.2	0.7	50.2	48.2	2.0
20	Distribution	18.4	18.9	(0.5)	67.6	69.5	(1.9)
21	Customer service	10.9	8.5	2.4	40.3	42.6	(2.3)
22	Conservation	5.8	6.1	(0.3)	21.8	22.7	(1.0)
23	Administrative and general, net	22.8	21.6	1.2	72.6	73.3	(0.7)
24	Taxes	30.3	28.2	2.1	81.8	81.3	0.5
25	Depreciation and amortization	34.7	31.8	2.9	105.0	97.4	7.6
26	Total operating expenses	241.8	228.2	13.6	740.7	737.8	2.9
27							
28	**Net Operating Income**	**65.4**	**65.9**	**(0.5)**	**141.9**	**135.6**	**6.3**
29							
30	**Other Deductions, Net**						
31	Investment Income	1.1	1.3	(0.2)	3.7	7.8	(4.1)
32	Other income (expense), net	1.7	1.3	0.4	5.2	6.3	(1.1)
33	Interest expense	(25.8)	(25.2)	(0.6)	(80.0)	(81.3)	1.4
34	Noncapital grants	0.1	0.5	(0.4)	2.0	-	2.0
35	Capital contributions	4.6	3.2	1.4	32.1	35.6	(3.5)
36	Capital grants	0.1	-	0.1	0.9	0.8	0.1
37	Total other deductions, net	(18.2)	(18.9)	0.7	(36.2)	(30.9)	(5.3)
38							
39	***Net Income***	**47.2**	**47.0**	**0.2**	**105.7**	**104.7**	**1.0**
40	**Note A:**						
41	Short-term wholesale energy sales, gross	33.2	24.2	9.0	75.2	114.5	(39.3)
42	Short-term wholesale energy purchases	(3.7)	(1.5)	(2.2)	(26.3)	(24.5)	(1.8)
43	**Net ST wholesale sales before booked-out LT purchases**	**29.5**	**22.7**	**6.8**	**48.9**	**90.0**	**(41.1)**
44	Booked-out long term purchases	(3.4)	(2.0)	(1.4)	(6.2)	(5.2)	(1.1)
45	Net short-term wholesale energy sales	**26.1**	**20.7**	**5.4**	**42.7**	**84.8**	**(42.1)**
46	**Note B:**						
47	Power-related revenues, net (line 8 minus line 17)	1.4	0.5	0.9	25.7	25.9	(0.2)

Net Income Variance Analysis
April 2013

Variance Year-to-Date 2013 Compared to 2012 Actuals: $0.2 million or 0.4%

Major components ($ millions):

$47.0	Net Income YTD through April 30, 2012
$11.7	Higher retail revenues due to 4.4% rate increase effective January 1, 2013 and colder than normal January
$6.8	Higher net surplus energy sales
($10.3)	Lower RSA deferred revenues transferred-in
($2.9)	Higher depreciation and amortization
($2.4)	Higher customer service expenses primarily due to higher bad debt expense compared to 2012 ytd.
($2.7)	Other (net)
$47.2	Net Income YTD through April 30, 2013

Variance 2013 Revised Forecast Compared to Financial Plan: $1.0 million or 1.0%

Major components ($ millions):

$104.7	Net Income YTD through December 31, 2013 - Financial Plan
$4.8	Higher retail revenues due to BPA pass-through on October 1, 2013 and colder than normal January
($41.1)	Lower net surplus energy sales than planned
$42.3	Transfer from RSA to offset lower net surplus energy sales
($7.6)	Higher estimated depreciation and amortization
$2.6	Other (net)
$105.7	Net Income YTD through December 31, 2013 - Revised Forecast

City Light Risk Oversight Status Report
As of Wednesday, May 08, 2013

Summary

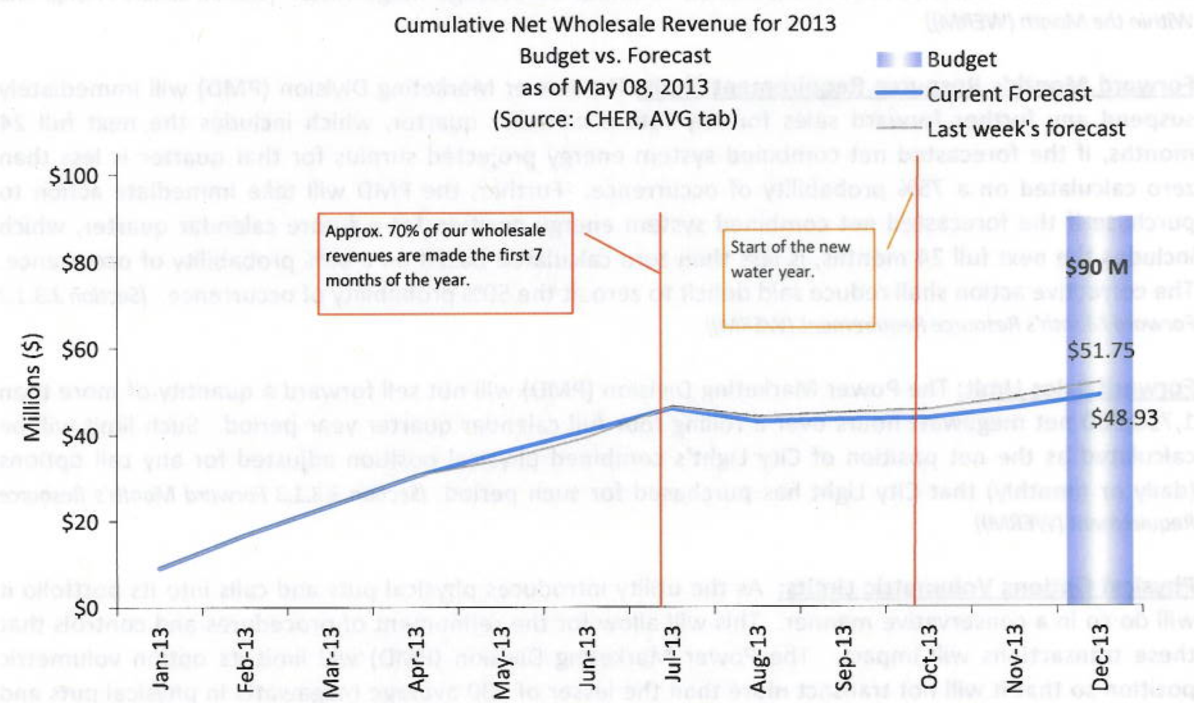
	% of 5 yr Avg	Current '13 Avg	5 Yr Avg
SCL Hydro Generation	89%	980 MW	1,108 MW
Peak Market Prices	96%	$36.30	$37.63

SCL Hydro Generation: The total average generation per hour for Seattle City Light's three major hydroelectric resources (Skagit, Boundary, and BPA Slice) for the 2013 calendar year. This average includes actual generation for past months, and forecasted MW for future months. The 5 year average value is comprised of actuals for years 2008-12.

Peak Market Prices: The average peak market price for the nearest electricity trading hub (Mid-C) for the 2013 calendar year. The 2013 average is comprised of monthly peak forward marks for future months and averaged Dow Jones firm peak index daily prices for past months. The 5 year average is calculated using Dow Jones peak daily prices for years 2008-12.

Wholesale Revenue Variance: Chart 1 below compares the 2013 annual approved Net Wholesale Revenue (NWR) budget of $90MM with the latest NWR forecast of $48.9MM. The NWR forecast decreased by $2.8MM from the previous forecast of $51.75MM. This change in the NWR is as a net result of decrease in the hydro forecast for Jun-Dec and forward prices accounting for $4.1MM and $0.5MM respectively and increase in current month's (May) estimate by $1.8MM.

Chart 1



Publication Date: 05/14/2013

City Light Risk Oversight Status Report
As of Wednesday, May 8, 2013

Policy Compliance:

Tail Risk Limit	Prompt Month & Within Month Limit	Forward Month's Resource Requirement Limit	Forward Sales Limit	Physical Options Limit
Compliant	Compliant	Stop Sale	Compliant	Compliant

**In this week's reports, the Forward Month's Resource Requirement Limit has been met under the 75% probability of occurrence for Q4 of 2013. The POMD has no plans to sell forward energy for Q4 of 2013 until further notice. No further action is needed.*

Tail Risk: For the current calendar year, the Power Marketing Division (PMD) will conduct its hedging activity to maintain the Utility's position within an $8MM Risk Tolerance Band (RTB) around the calculated 5% Tail Risk metric. For the prompt year (the year immediately following the current calendar year), the Utility's position will remain within a $10MM RTB around the 5% Tail Risk metric. *(Section 3.3.2 Prompt and Within the Month (WERM))*

Prompt Month & Within Month Volumetric Limit: The Power Marketing Division (PMD) will maintain City Light's power portfolio position for any prompt month or any Balance of the Month period so that such position shall not exceed a 50 average megawatt deficit during such period. Such limit will be calculated as the net position of City Light's combined physical position adjusted for any call options (daily or monthly) that City Light has purchased for such month. If this limit is exceeded, the Division will take immediate action to reduce the deficit to under 50 average megawatts. *(Section 3.3.1.1 Prompt and Within the Month (WERM))*

Forward Month's Resource Requirement Limit: The Power Marketing Division (PMD) will immediately suspend any further forward sales for any future calendar quarter, which includes the next full 24 months, if the forecasted net combined system energy projected surplus for that quarter is less than zero calculated on a 75% probability of occurrence. Further, the PMD will take immediate action to purchase if the forecasted net combined system energy position for a future calendar quarter, which includes the next full 24 months, is less than zero calculated based on a 50% probability of occurrence. The corrective action shall reduce said deficit to zero at the 50% probability of occurrence. *(Section 3.3.1.2 Forward Month's Resource Requirement (WERM))*

Forward Sales Limit: The Power Marketing Division (PMD) will not sell forward a quantity of more than 1,750,000 net megawatt hours over a rolling four full calendar quarter year period. Such limit will be calculated as the net position of City Light's combined physical position adjusted for any call options (daily or monthly) that City Light has purchased for such period. *(Section 3.3.1.3 Forward Month's Resource Requirement (WERM))*

Physical Options Volumetric Limits: As the utility introduces physical puts and calls into its portfolio it will do so in a conservative manner. This will allow for the refinement of procedures and controls that these transactions will impact. The Power Marketing Division (PMD) will limit its option volumetric position so that it will not transact more than the lesser of 300 average megawatts in physical puts and calls (including daily and monthly options) or spend more than $2MM for option premiums for any calendar year. *(Section 3.3.1.4 Forward Month's Resource Requirement (WERM))*

City Light Risk Oversight Status Report
As of Wednesday, May 8, 2013

5% Tail Risk Metric, 2013

In October 2007, City Light implemented a risk metric named the "5% Tail Risk". It is calculated as the average of the worst-case scenarios for City Light's cash from operations for the calendar year. Cash from operations is a bottom-line financial metric defined as the cash available to finance capital projects. There are numerous drivers of cash from operations such as retail revenue, investment income, debt service, and O&M expenses; however wholesale energy revenue is typically the primary driver of uncertainty in this metric.

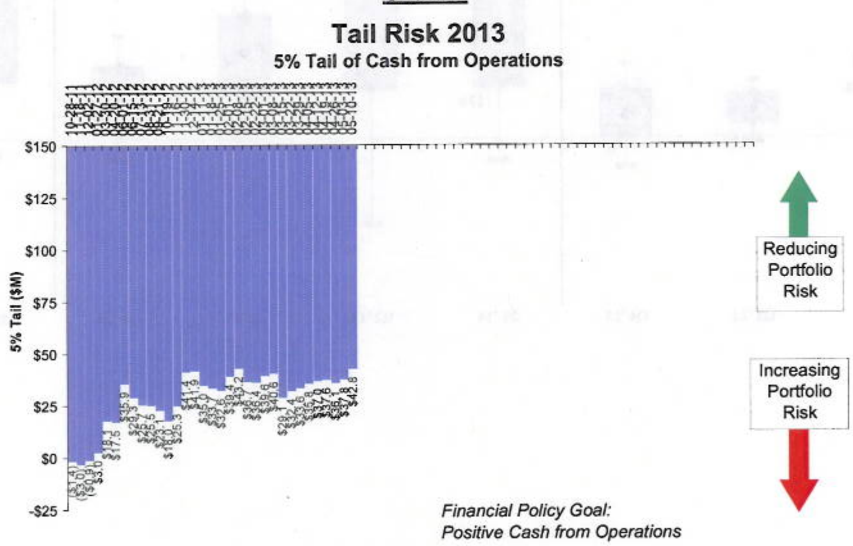
In 2011, the Rate Stabilization Account (RSA) became operational. The RSA is a cash reserve that is used to buffer the Utility from uncertainty in wholesale energy revenue. If the RSA becomes depleted, it is replenished via retail rate surcharges. The RSA significantly mitigates City Light's financial (i.e. cash from operations) risk associated with wholesale energy revenue; however retail customers are exposed in part to the wholesale energy revenue risk via RSA surcharges of up to 4.5%. To appropriately encourage management of risk borne by both City Light and retail customers, the cash from operations amount used in the 5% Tail Risk calculation excludes any effects of the RSA.

The 5% Tail Risk metric is used as a risk control measure in City Light's management of surplus hydro resources. It is used in concert with additional volumetric limits, as well as expert knowledge and analysis of western wholesale energy markets, river flow data, and generation unit outages, to inform power management decisions.

Every week, portfolio models are updated with the most current information and the 5% Tail Risk is recalculated for both the current portfolio (forecast position plus purchases, less sales) and planned portfolio (current portfolio plus remainder of existing hedge plan). The metric provides an indication as to whether the utility's portfolios include too much or too little surplus resources.

Chart 2 (below) illustrates the 5% Tail Risk metric values for the calendar year 2013. During the course of the year, the 5% Tail Risk metric value has decreased from an initial projection of -\$1.4MM to the current projection of a worse case of \$42.8MM of Cash from Operations.

Chart 2



City Light Risk Oversight Status Report
As of Wednesday, May 8, 2013

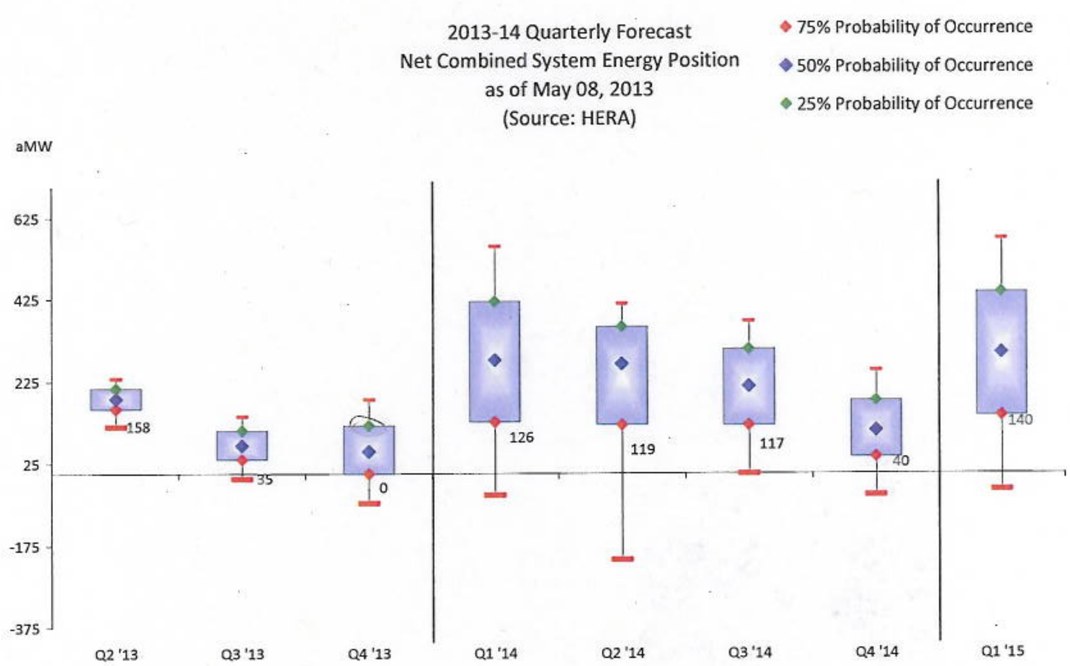
Hedging Plan & Position Status

Hedge Plan 2013, Phase 2 was last proposed and approved by the Risk Oversight Council on March 13, 2013.

City Light uses the most recent load and hydro forecasts including relevant historical data to run a Monte Carlo simulation based model that produces a forecast of more than two thousand portfolio resource scenarios. The output of this model along with the current forward positions provides energy information needed to determine SCL's position. The chart above shows the positions as of the model run date for the different probability of occurrence of the various resource scenarios.

Chart 1 shows the Net Combined System Energy Position for the next 8 quarter, 2 year periods to cover the full amount of City Light's contracting authority. The blue boxes represent the expected net energy position from the 25th to the 75th percentile. The dark blue diamonds inside the boxes represent the 50th percentile. Under the amended rule, if the blue diamond is below zero, City Light must purchase energy to get back above zero.

Chart 3



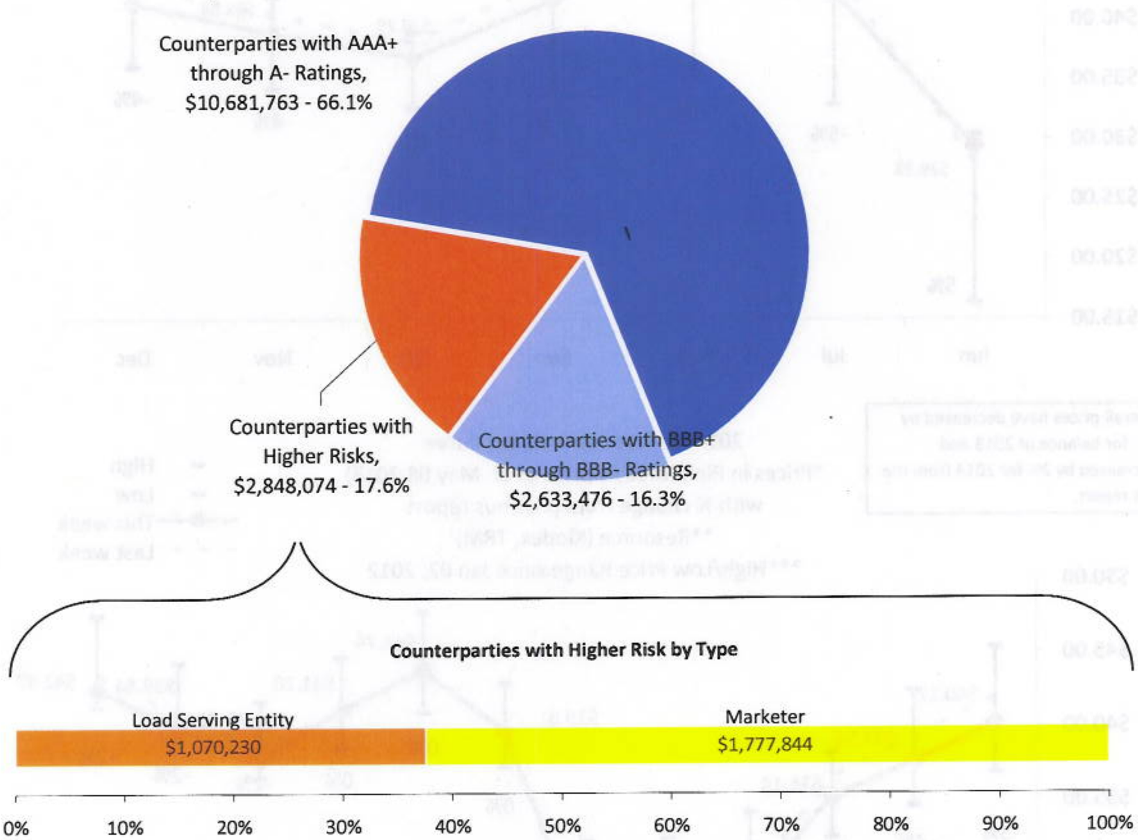
City Light Risk Oversight Status Report
As of Wednesday, May 8, 2013

Credit

City Light actively manages its wholesale energy market credit risk by: setting credit limits for each counterparty that are derived from credit scoring models and analysis; securing credit enhancements; monitoring industry news; and by tracking counterparty credit exposures. Risk Management Division uses industry standard tools to proactively measure changes in counterparty creditworthiness. Internal credit ratings are arrived in conjunction with ratings provided by external agencies. In addition, the concept of risk tolerance further extends to counterparties that are considered 'Higher Risk' with equivalent Moody's and S&P implied ratings of 'BB+' or less. Counterparties with such implied ratings are placed into the 'Higher Risk Credit Portfolio' for close monitoring in order to reduce the risk of slow or non-payment while maximizing wholesale power, transmissions and related ancillary revenue opportunities. City Light strives to keep its "Higher Risk" counterparty exposures at less than 25% of the total exposure at any given time.

Chart 4

Total Net Credit Exposure by Implied Ratings Class as of May 08, 2013



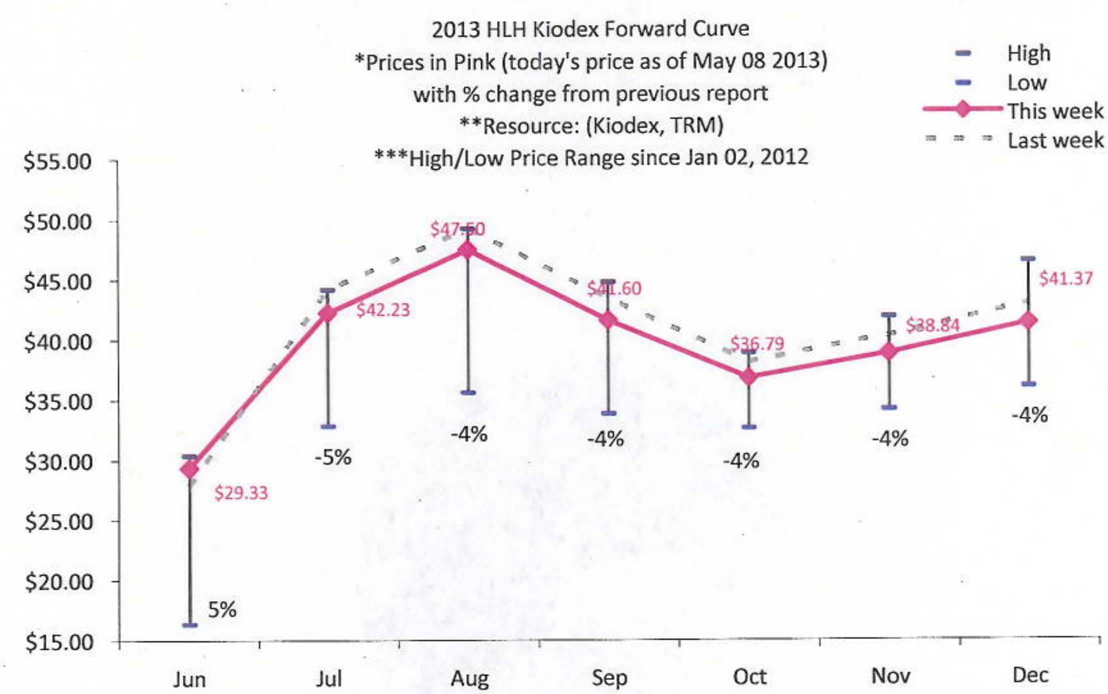
Credit Notes: The late payment from last week has been received. There are no major credit issues this week.

City Light Risk Oversight Status Report
As of Wednesday, May 8, 2013

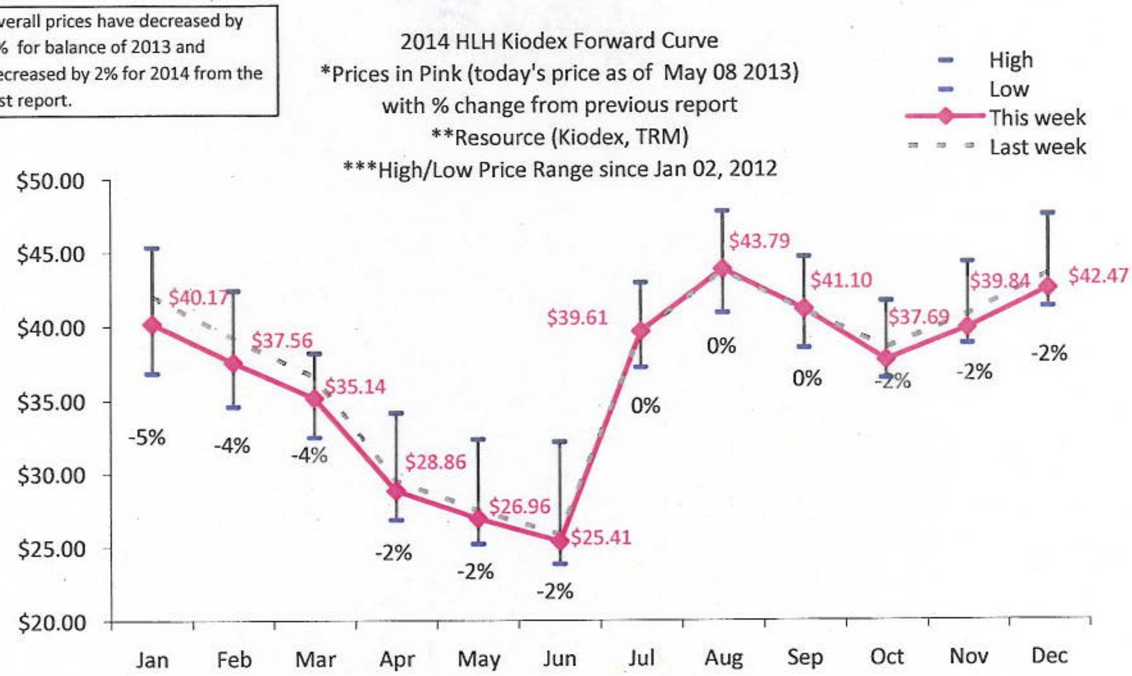
<u>Price</u>

To ensure that prices are independently developed, City Light's official forward price curve is prepared by KIODEX and used for internal analysis, valuation and modeling tasks. Chart 5 shows the forward price range (Mid-C HLH only) for calendar year 2013 and 2014.

<u>Chart 5</u>



Overall prices have decreased by 3% for balance of 2013 and decreased by 2% for 2014 from the last report.



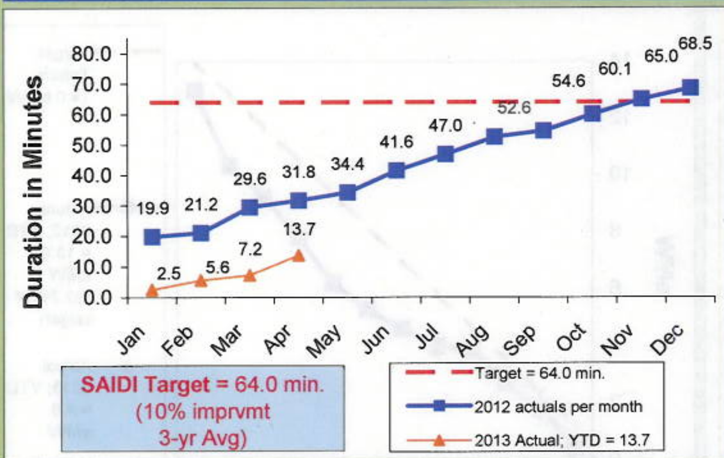
Seattle City Light

Performance Metrics Report

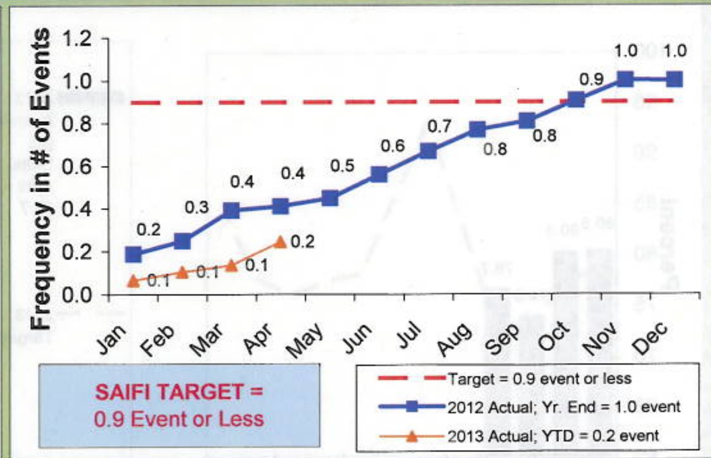
April 2013

Distribution Operations:

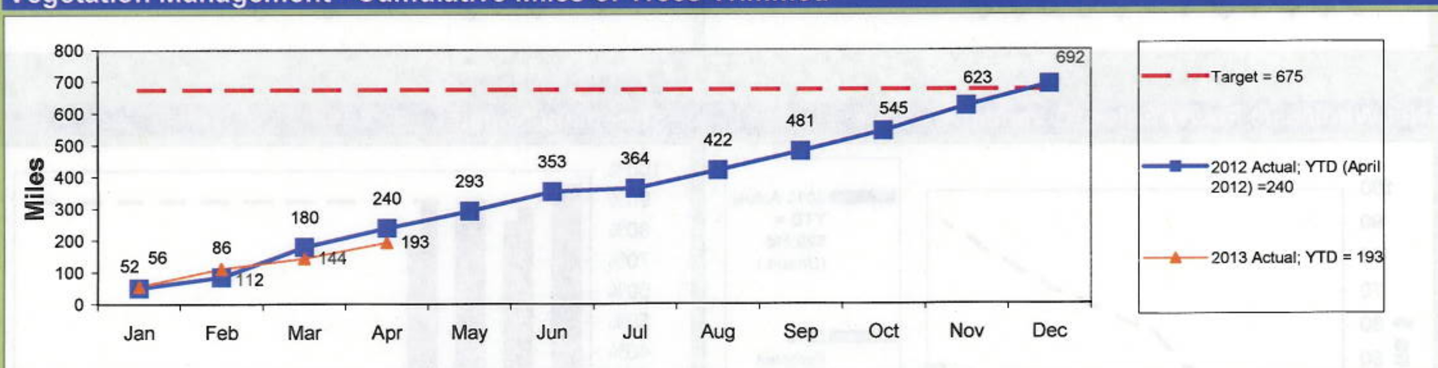
SAIDI - Cumulative



SAIFI - Cumulative

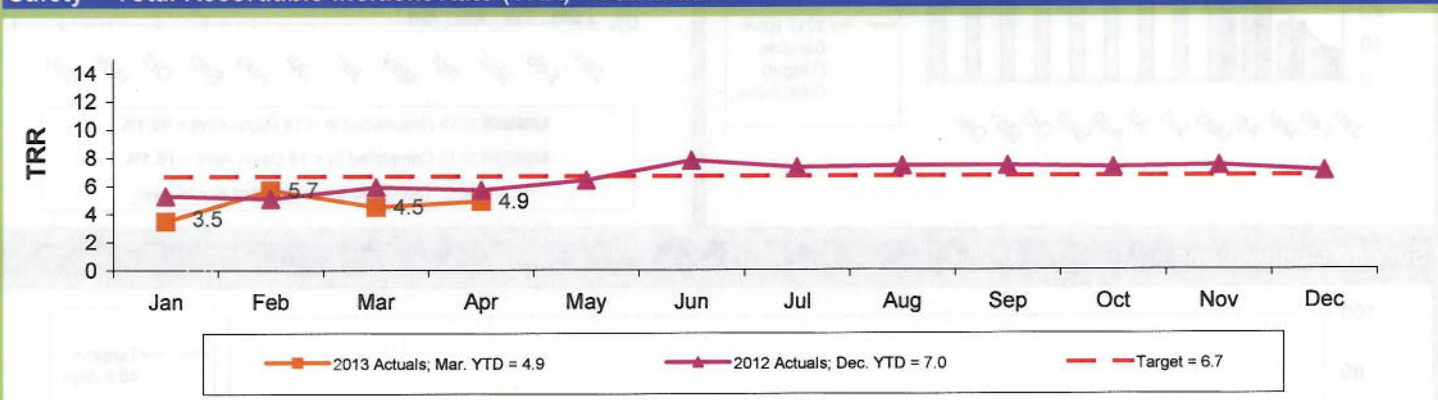


Vegetation Management - Cumulative Miles of Trees Trimmed



Human Resources:

Safety - Total Recordable Incident Rate (TRR) - Cumulative

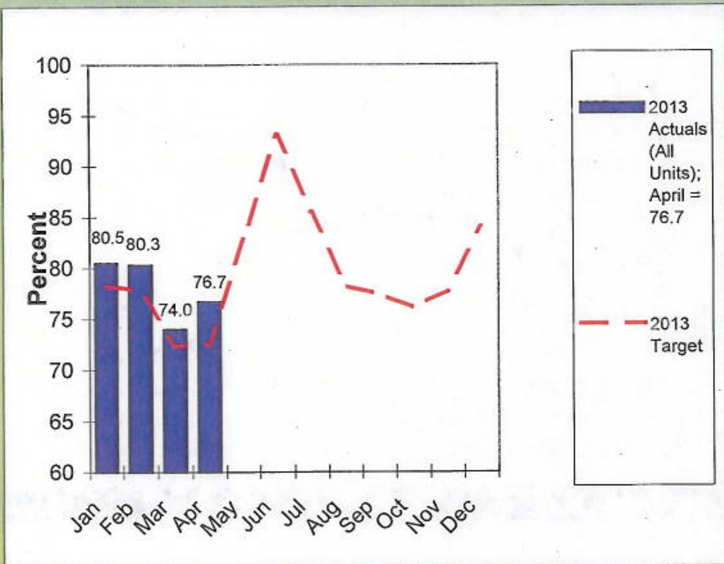


Hiring Statistics YTD

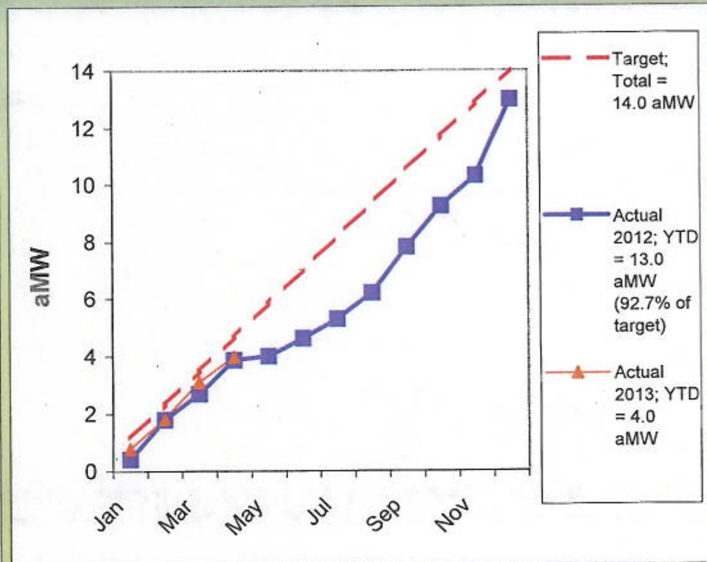
	Jan	Feb	Mar	April	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
Cumulative # of New Hires	12	21	30	40	0	0	0	0	0	0	0	0
Cumulative # of Promotions	4	9	13	16	0	0	0	0	0	0	0	0
Ave. # of Hiring Days	38	47	45	46	0	0	0	0	0	0	0	0
Cumulative # of Attrition	4	14	26	38	0	0	0	0	0	0	0	0
Vacancy Rate Mo. End	7.8%	7.9%	7.8%	7.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Power Resources:

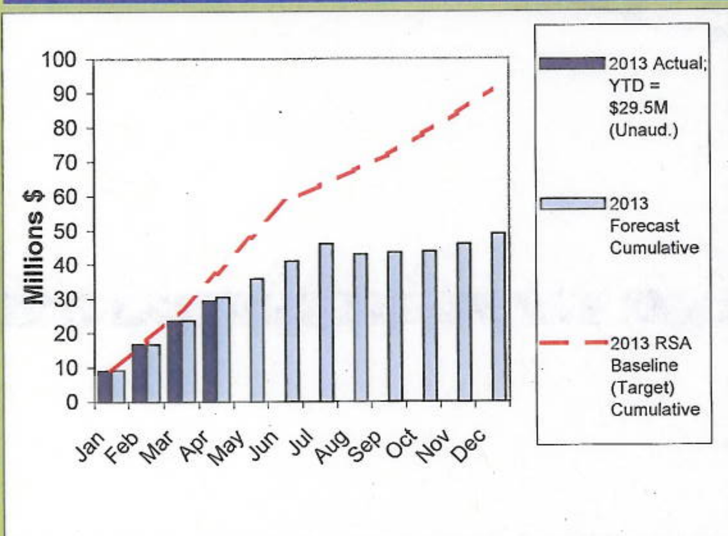
Generator Availability-All Units (Actuals %)



Conservation Savings (Cumulative)

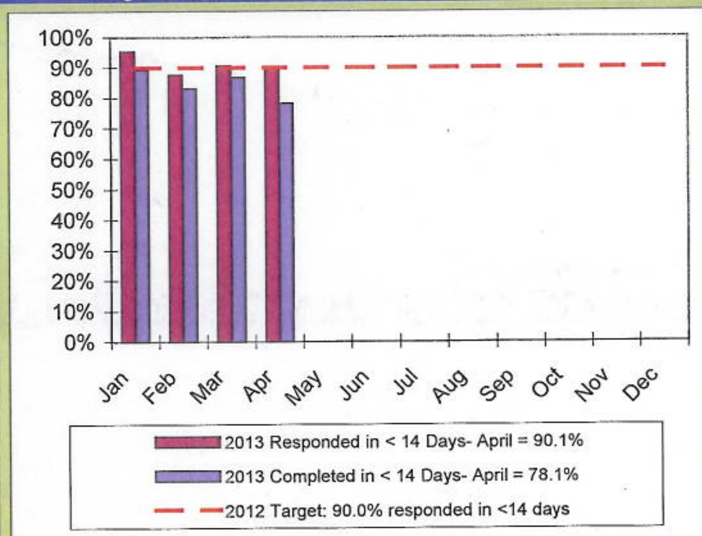


Net Wholesale Power Sales (Cumulative)



Customer Care:

Streetlight Repairs



Service Connections